25X1A9a COPY

COPY

- What should be the objectives of the multilateral selective export controls against the Communist bloc as a whole, i.e., on what basis abould the multilateral selective centrol lists be constructed?
- (a) Under what circumstances, and in what manner, should a different type or level of control be maintained against any particular portion of the Communist orbit?
  - (b) To the extent such differential controls are maintained, what should the U.S. do to minimize their frustration?
  - (c) Must participation in the Free World controls be generally umiform, or can special latitude be allowed one or more countries under special circumstances (i.e., Ceylon re rubber, Japan vis-a-vis Communist China, Germany re interzonal trade, etc.)?
- To what extent, if any, should U.S. controls differ from the multilateral controls?
- 4.(a) What should the U.S. attitude be toward exports to the Communist bloc of commodities outside the internationally agreed control spectrum.
  - (i) by other Free World countries;(ii) by the U.S.?

  - (b) To what extent should the U.S., for security reasons, apply, or seek the application by other Free World countries of, restrictions on imports from the Communist bloc?
- 5. In order to achieve multilateral agreement on specific economic defense measures, should the U.S. (a) apply senctions against, or (b) offer special inducements to, Free World countries not otherwise villing to accept the measures or positions supported by the U.S.?
- How should the U.S. regard, or combat, Soviet efforts toward economic penetration within the Free World?
- How should the U.S. attempt to advance the degree of unity in, 7. and the effectiveness of, the multilateral organization concerned with security trade controls?

State Dept. declassification & release instructions on file

## IV. Alternative Possibilities in Trade Control Policy

25X1A9a



#### A. Expert Controls

## 1. Techniques and Administration of Controls

In determining a system of export controls, the first decision to be made lies in a choice between a complete embargo and selective denial on the basis of some predetermined standard. In large part the goals of the export control program will determine the choice of the system of controls: that system is most desirable which will administer the program so me most affectively to accomplish its ands. In brief, the purpose of the program determines the best form of administration as well as the number and extent of negrodities controlled.

on the Bloc via export controls would entail a complete embargo against all sales or shipments of goods and services to the Bloc. The advantages of a complete embargo lie in the fact that it is unambiguous and easy to justify: why contribute at all to the production expecity of a country with which you may one day be at war! In fact, a complete embargo might well arouse less apposition, or less vocal apposition, in the exporting community than a solective system based on broad considerations which are bound to be somewhat equivocol in interpretation. On the other hand a complete embarge would provide excellent assumition for the propagandists of the Bloc, who could term it unduly restrictive.

A system based on selective denial would entail greater costs of administration that a complete embrage because of the necessity for research and negotiation, the processing of export licenses and such. Export controls based on broadly-defined commodity categories are, in most cases, more efficient in accomplishing the goals of an emport control program than a system based on

narrowly defined commodity items, for the possibility of circumventing the intent of the program is smaller. Controls based on broad categories have a more defensible economic justification than controls based on narrowly defined items. Moreover intelligence concerning Bloc supply and requirements is frequently not sufficiently complete to permit fine distinctions. Broad categories, on the other hand, are more likely to be considered an "unreasonable" restriction of trade by conserted circles, and therefore the chance of opposition to and circumvention of controls is greater.

An emport control pregram administered through a system of value—
quotas for Free World exports to each Blod country would not only be expensive
of administration and difficult of negotiation, but would accomplish little ether
than to serve as a warning of the West's awareness of the existence of benefits
from trade. It is hard to conceive of a goal or set of goals of a trade control
program that would not be better administered by other means.

A system of flexible, shifting controls would probably create more confusion in the Free World than in the Bloc where a basic philosophy of saturky would justify a retreat from trade. The Bloc could, of course, reset by placing large orders for goods currently "off the list" which it would shortly cancel. The real costs of such a system to the West would very probably be higher than the injury to the Bloc.

#### 2. Bases for Choosing Specific Exports to be Controlled

Within the objectives of a trade control policy as stated by the MEC and discussed in earlier sections of this report, there are various possible techniques for measuring, and ways of defining, "a significant contribution to the war potential of the Bloc." The only operationally significant definition

Con Con

of war potential, as earlier paragraphs have pointed out, lies in terms of a measure of the total productive ability of the economy. But even within these terms, a "mignificant contribution" to total "productive ability" is susceptible of various interpretations.

they hart the West, both politically and economically. Any program that limits the volume of exchange will impose some loss on the trading partners involved, for trade, in paraiting the acquisition of goods with a minimum expenditure of production resources, thereby increases their productivity. The sim of any trade control program, therefore, must involve maximizing the injury or loss imposed on the Bloc with a minimum of loss to the West. In this section, we shall be concerned only with the var our possibilities for measuring and defining the economic loss to the Bloc resulting from a cortainment of Bloc imports.

As a first approximation, the economic loss, which the cessation of trade in certain items would impose on a country being embarged, can be defined as the gain which the country had been receiving from trade. The gains from trade can be defined as the difference in the amount of productive resources required for the acquisition of the imported commodities through domestic production as compared with that required for the production of experts to be sold in foreign trade. The cost to the Bloc of its imports from the West is represented by the productive resources it should devote be producing experts sold to the West. If trade is curtailed, the volume of experts required to finance imports will be smaller and the decline in production for experts will release certain productive resources. The amount of resources required to expend the output of the import-

replacing industries however, will be greater than that released by export contraction, the difference in resource requirements representing the gains from trade. If on the other hand, trade has not been motivated by economic considerations, the resource requirements of expanding the import-replacing industries say be less than the released resources of the export industries, the difference indicating the cost of the non-economic gains from trade. Here we shall assume that on the whole Blac trade has been economically motivated.

The gains from trade, or the burden involved in a loss of trade, can thus be measured in terms of the different amounts of resources required before and after trade to produce the same lists of goods available to the domestic economy. It could also be defined in terms of the different amounts of goods available to the domestic economy from the same quantities of resources before and after trade. In the second case changes in the level of total output (e.g., Gross Sational Product in constant prices) before and after trade, would be measured rather than the quantities of resources required. Both definitions are essentially concurred with the effects of trade on the productivity of productive resources. Thus our first approximation to a definition of the economic loss resulting from trade controls can be assented to refer to the difference in the productivity of the economy's productive resources when used in isolation and when used in international trade.

In the sections that fallow we shall be concerned with an attempt to measure the effects of East-West trade in various cosmodities on Bloc resource requirements, by attempting to answer the question "Now much additional resource would the Bloc have to use to produce by itself the cosmodities which it now imports?"

#### Reble-Dollar Ratios

The effectiveness of a progress of these controls can be judged by the economic loss which the constition of trade would impose on the country being embargers. This loss can be measured by the difference in the amounts of productive resources required for the acquisition of a given commodity, or list of commodities, through domestic production as compared with the resource requirewents for the export of other committies in foreign trade. These different quantities of resources could be stated as two lists of the different amounts of labor of different types and of various kinds of materials required for the expansion of the import-replacing industry and released by the contraction of the export industry. The comparison of such lists, however, would be difficult and the significance of their differences hard to comprehend. The market value of these resources would provide a convenient and accurate way to suggesting the difference in requirements, provided that relative prices in the country reflect relative scarcities of different goods, coarcities is relation to one another and in relation to the demand for them. If the prices of all impute, labor, capital and meterials equal the opportunity tost of the imput-that is, the market value of its contribution to output is its best (i.e., most productive) alternative opportunity for employment -- and if the prices of all goods equal the total cost of all imputs required to produce one unit of the good, them the use of market values would accumulaly reflect the differences in quantities of resource requirements in terms of their relative scarcitics. With such a system of pricing, costs of production of imports and exports could be used to measure accurately not resource reconstruction.

Let us sesume such a pricing system in each of two countries, A and B. Let us assume that A's values are stated in rubles per unit, that B's values are stated in deliars per unit. If each country A and B, produces two accumulation, X and Y under the following costs per unit, then in Country A, Y

	A(R)	B(#)	R/\$
X	10	2	5:1 15:1
Y	30	50	14:1

coals three times as such to produce as X, or for every unit of Y given up, A could produce 3 units of X. In country B, Y is 10 times as expensive as X, or for every unit of Y given up 10 units of X could be obtained. Under these conditions it would be to the advantage of A to produce Y and obtain X in exchange; similarly, it would be to B's advantage to produce X and obtain Y in exchange. If in trade Y will exchange for more than 3 X, A would be better off. Since B can get 10 X for every unit of Y given up in demostic production, if B could get more than  $\frac{Y}{10}$  in exchange for X in trade, B would be better off. Thus an exchange ratio between Y<sup>2</sup> 3X and Y<sup>2</sup> 10X would benefit each country. Rable costs in A are higher than \$ costs in B, but X is \$ times as costly in A as in B, while Y is only 1½ times as costly.

The distribution between countries A and B of the potential gains from trade will be determined by the rate of exphange between their two commencies (the ngeber of B required to purchase one \$), or by the terms of the barter agreement by which they trade X for Y. Thus a barter agreement in which Y is exchanged for 6X would result in a fairly even distribution of the gains from trade, while us exchange of 3X for Y would comfer an country B all of the benefits from trade.

The Americance of the Price-Cost Patio

With a knowledge of relative costs, those foreign trade items capable of yielding the trading countries and gain could be determined. The actual gain from trade, however, would depend on the specific conditions of exchange. If describe prices are proportional to costs in each sountry (even though they form a different proportion in each), it would be possible to determine the items in which trade is potentially most gainful by comparing prices in the two countries. Thus if prices is country A equal the average total unit cost of each consodity, and if factor prices are equal to the return which each input could get in its most best alternative compation, then it could confidently be stated that as expansion of the output of X (in the example given above) by one unit with fail employment of resources would require a contraction of Y's output by one-third of a unit.

If, however, not all factor prices equal their apportunity costs, and if prices beer a varying helatiquahip to cost in different industries, and as between countries, then the ratic of prices may yield minimizing indications of comparative gains from trade. Thus in the US the existence of varying degrees of mosapoly emong industries and factor markets implies prices in a varying relation to apportunity costs. Similarly government interference with the price system by seems of supports, subsidies or tamps can mean that the relation between price and cost is distorted, and by different degrees in different industries. In the USER, wages and profits are included in costs, but the existence of rent, depletion, and interest (the returns to the state amed fectors of production) is denied.

SECRET

Thus a simple emperation of ruble-dollar price ratios for a list of individual commodities would be subject to distortions of various degrees and direction because of variations in the ratios of prices to costs. Without a thorough study of the relations between Soviet prices and costs together with an adjustment, which would necessarily be arbitrary, for the return to state-sumed factors, ruble prices are only of equivocal significance in abbreviant to measure even the relative gains from trade in different commodities.

Moreover, even with complete inewledge of current costs of production in the USSE and the US, the amplication of a ruble-dollar cost ratio in an extimate of the gains from trade implies the essumption that domestic output can be expended at constant costs. In many cases, imports represent such a small proportion of total demestic production in the Bloc that the assumption accords with reality within the relevant ranges of output. In those cases, however, where imports comprise a significant fraction of domestic production, the constant cost assumption requires exemination. This is especially true where the necessary expansion of demostic output could only be achieved through an increase in the plant especity already existing in the industry. The proper cost of production calculation would include only interest and degreciation charges on the increased cutyet in the current period. If, however, the achievement of this expansion is only possible with increased investment, the burden on the economy of regimeing this import is larger than that incurred in supleding an import from existing capacity. Thus even with complete knowledge of relative costs, the use of ruble-dollar retics in an estimate of gains from trade would have to be supplemented by considerations of existing capacity and the nature of costs.

## SECRET

There are certain industries for which the constant east ensumption
is more questionable than for others. The extractive and raw material production
industries are likely to become industries of rapidly rising costs if production
is pushed sufficiently, just because the natural resources capable of yelding this
mineral or crop are of limited quantity. Or again, certain manufacturing industries
may experience declining costs with an expension of output because of the existence
of external economies or economies of scale. Some boundary of these long-run cost
conditions in the import-replacing and expert industries is messessery if the grains
from trade are to be accurately assessed.

Fortunately there is evallable the technique of inter-industry analysis, which vis an imput-output table and inverse matrix, permits an exemination of the nature of the impact imposed on the economy by the comments of imports. In indicating the nature and degree of both the direct and indirect effects of an expension of the import-replacing iminstry, interindustry analysis would sid in locating the potential short-run bottlemecks, which result from a lack of necessary especity, and in suggesting the composities subject to increasing or decreasing long-run costs. This technique can also be used to supplement and test estimates of ruble costs derived from active sources. Within the next six menths there will be available for application on imput-output table, a coefficient and inverse matrix, which will describe the interindustry relationships among 61 processing and producing sectors into which the total of Soviet economic activity has been classified. Grouping all of secondic activity into only 61 industries implies a large enount of aggregation. This further means that very detailed and highly specific definitions of import items connot be hardled. Thus from this matrix it will not be possible to emenine the impact on the USSR of a cemeation of imports of copper wire;

rather a commation of imports of all insulated wire and cable would have to be examined, a much broader entegery. Or again, the effects of an emberge against the movement of jig-borers to the MANR could not be examined; rether it would be necessary to compler the effects of controlling all imports of suchine tools and metal working machinery.

#### Emergics of Rubbs-Dollar Ratios

A preliminary comparison of 1950 rubbs and dellar prices for the same commedities, for comple, reveals an average rubbs-dellar ratio of 2.5 to 1 for certain machine tool items, of 35 to 1 for agricultural commedities, and from 12 to 1 to 100 to 1 for certain nonferrous metals. On the basis of these relative prices and on the agricultural of a comparison prices and on the agricultural commedities and certain memberrous metals would appear that imports of agricultural commedities and certain memberrous metals would offer most gain to the Boviet Baion, and the cost of imports of to them would be minimized if they expected members tools and electrical and electronic equipment (for which available ratios average about 7 to 1) in exchange.

For example, agricultural prices in the US and USER, when compared, show the following ratios (rubles to one dollar):

Vhoet	2
Rye .	3
Burley	3
Onte	3
Corra	72
Other grain	108
Rico	103
Cotton (films)	15
Wool, greene	5
Potestates	16
Boy beams	100
Pish	105
Sugar bests	70

The ruble prices on which these ratios are based include the turnswer tax, but exclude rental payment. As indicators of relative costs the high ratios for rice and fish are especially suspect. Rice is grown in the USSE under the same conditions as in the US; it is hard to conceive that the Soviet Sisherman are 100 times more inefficient than their US counterparts.

Among nonferrous metals the following ratios were found:

Almeinur	: ingot eastings sheet: red (3/8") red (2-11/16	10. 10. 11. 11. 19.
Cobelt		103
3	electrolytic sheet rod, rough rod, square sabing sire	16 17 16 10 15
Mercury		1.7
<b>E</b> ickel		37

The ruble prices on which these ratios are based exclude depletion and consequently are low.

The lowest ratios are generally found for indestrial equipment as the following examples suggest:

Vortical boring and durning mills	à.
Surface grinding medines	7
Engine and center lather	<b>\$</b> ·
Rorisental turnet lather	2
Tractors (100 HP and sver)	6
Oil products similarly are relatively chasp:	
Auto-tractor oil	5.
Dissal motor oil	3
Industrial oils	2
Chemicals relatively accommité:	
Tolkidos	19
Eydrogen percentdo	23

# 

Again it should be rescendered that the rev material costs of these industries do not include rent and depletion payments.

ratio for the total of Soviet production of approximately 10 to 1. On this bas a sit can be deduced that/price ratio over 12 to 15 is high, lower than 5 to 7 is low. Still, however, the correlation between prices and costs for ratios within this range is entirely subiguous. We can, however, at the present state of our modeleds suggest that in the case of extremely high and extremely low ratios a presumption exists that costs too say be extreme, and therefore the Blac would derive large gains from imports of those cosmodities bearing very high ratios.

#### Suggestions for Operations

In the light of the showe discussion although it would be most desirable to be able to draw up a detailed list of 600-odd Soviets imports ranked according to the burden which the loss of each would have on the domestic economy, the construction of such a list would require far more price-cost or interindustry relationship information than we now have, or are likely to have in the near future.

signated, each of which would require the addition of a new attribute to the existing list. As the entire previous discussion indicates, the criterion of the amount of gain from trade, or the cost incurred upon the consution of trade, for determining which western predicts are to be denied to the Micc is an economically sound and rationally defensible standard. It is therefore suggested that a new attribute be added which states that, with certain specified exceptions, those consedition would be subject to expert controls, the less of imports of which would impose the greatest cost or the most distorting impact as the commonly of the Micc. Such an attribute should be accepted fairly readily by reasonable free-world partners, and once accepted would case considerably the burden of merotiations.

1. A list could be constructed of 50 or 60 commedity categories ranked associating to the cost which the less of western imports would impose on the domestic economy of the Blos. The examination of the domestic effects of a commutation of different kinds of imports, aggregated to this degree, will be undertaken in GRR as part of projects already initiated. Moreover within the

ment twelve meable new ruble price and cost studies will be completed. This additional information, together with price data we already have, will permit us to examine, in terms of ruble-dollar ratios, important sub-categories of imports within the larger groups already investigated as an aggregate. Thus by using both ruble-dollar ratios and interindustry analysis, supplemented by the considerations discussed below, it will be possible to construct a list of consodity estegories, more or less broadly defined, ranked according to domestic impact and escending to relative costs. The task can be simplified somethat, and existing information supplemented by the following considerations.

- 1. Protetypes, by definition, are not domestically produced in the Elec; there is, therefore, no relative cost or impact information existing on which to judge the gain to the Elec from importing such items. Because they are not produced, however, they can be assumed to be costly in terms of research and capital resources, and therefore the impact of lossing such imports can be assumed to be large. (see pp. below for a further discussion of the gains from importing protestypes). Thus imports embodying advanced technology would be denied to the Elec on the basis of the gains from trade criterion.
- 2. Among the more narrowly defined commedity categories for which we have no ruble price or east data, certain commedities will be known to be high cost because they are produced according to a method of outdated technology, or because they are produced on a small scale when US experience indicates the existence of sizeable economies of scale. Or again, any commedities known to be seemed in relation to the Soviet demand for them can be assumed to be the source of sizeable gains from trade. The loss of imports of such commedities would have a significant impact on the dimestic economy.

Such a list of commodity categories and sub-categories, ranked according to the gains from trade resulting from imports of each, together with supplementary committees relating to prototypes and relatively scarce commodities must mait the completion of studies already underway or planned. Approximately a year will be required.

2. A second course of action, which can be considered as either supplementary to that just discussed, or alternative to it, would lie in the undertaking by ORR to provide ad hoc support as requested by EDAC. Within the terms of reference of the suggested additional attribute, ORR could undertake, upon request, to study the relative costs of a commodity or the interindustry effects of the constitute of imports of a commodity being considered as a subject for trade controls. It findings would be reported as intelligence support.

#### Other Problem is the Use of the Ruble-Foller Nation

ether problem associated with the use of ruble-dellar ratios as a measure of relative gains from trade. The degree of gain a country derives from trade depends not only on relative costs of production but also on the relative costs of transporting the various items from the place where they are produced to the place when they are used. This transport cost in turn depends on relative transport rates and actual geographic locations. It is possible for transport costs to be so high, in relation to relative production costs, as to negate entirely gains from trade. It is also possible for geographic locations to be such that trade is gainful despite negligible differences in relative production costs.

tance for every commodity are obvious. As a first approximation it could be assumed that transport costs do not vary among commodities but bear a constant ratio to cost (price). Transport costs will, of course, be a larger percent of production costs for some co-modities then for others; on the whole, however, the ratio of transport to production costs is likely tots about the same for cortain commodity groups, especially from the border of one country to the border of the other. For example, transport costs on bulky raw anterials are likely to be a larger properties of production costs than in the case of highly fabricated goods. Thus if within each category of commedities bearing approximately the same ratio of transport to production costs, corndities were ranked according to their cost (price) ratios from high to low, the list would also represent the

emehanges that would be most gainful, ceteris paribus, although the amount of

The application of cost ratios to this purpose further assumes that Bloc costs are represented by a given rable price, and that free world costs are represented by a US price. Use of a USSR price assumes that the Soviet Union is the les cost producer of the lies in the Bloc, and that consequently the Mise's gains from trade implied in the ruble-dellar ratios are maximum gains in terms of the cost of Ploc exports. Similarly use of a US price assumes that t is country is the low cost produper in the West and that the West's gains from trade are maximum in terms of the cost of exports. In each case use of rubledellar ratios assumes that gains are maximum in terms of the cost of imports. With the empetion of certain machinery items produced in the satellites, this assumption about Mos costs is probably close to reality. Where the nature of intra-Ricc trade or other considerations make the assumption seem inappropriate, additional information on costs in other parts of the Bloc will be sought. The assumption about free world costs, however, is probably less justified. While in the field of manufactured goods. US production costs in general are probably as low as those of any western country, if transportation costs to the Bloc are included. Western Europe may well be a lawer priced market than the US. The same is true in the case of rew materials, with the additional complications of government supports for price in many cames, import quotes and other impediments to trade. Again, the cost data will have to be adjusted according to the geographic pettern of East-Heat trade.

develop into matters of only minor marginal significance, relevant in the case of a few commodities. Certainly more important in supplementing ruble-dollar ruties as a basis for trade controls is knowledge of relative demand and supply conditions in the Bloc. The ruble-dollar ratio for one commodity may be relatively low, say 4 to 1, and yet the commodity may be produced under such respictly using cost conditions that imports are highly important to the Bloc and embarge would do significant injury. Imposing an embarge on commodity such a commodity would thus do far more injury than one on a commodity for which the ruble-dollar ratio is higher, but for which demand and supply conditions in the bloc are more elastic. Insofar as rising costs are the result of inadequate suppassity or limited natural resources, it is hoped that interindustry analysis will call attention to the disparity.

A knowledge of demand and supply conditions implies a knowledge of the degree to which one cosmodity is substituteble for another in production or use, and the degree to which substitutes are available. Such knowledge is of course infinitely more difficult to obtain than prices, or even cost data. A notion of the relative intensity of Bloc demand in the short-run can be derived from changes in the pattern of Bloc orders for western goods. An increase in Bloc orders for or purchases of a specific commedity, however, may indicate a temperature of the good; or it may indicate an upward shift in demand

in the face of relatively inelastic supply, or a politically motivated action.

### Surplementery Considerations

Economic costs, however, may be greater or smaller than the difference in resource requirements for producing the same list of goods in isolation or in conjunction with foreign trade. Moreover the economic loss may be supplemented or equator balanced by non-economic losses or gains.

Execute costs as they have been defined above, disregard the duration of the effect of trade controls. In the case of some import controls, the USER would be able to adjust quickly, either by expanding the output of a domestic industry or changing the pattern of final demand. In the case of other controls, however, the adjustment period is likely to be of lengar duration, and therefore more costly because of disorganisations which exist during any transition period. The results of applying either ruble-dollar ratios or interindustry emalysis would have to be assented by time considerations.

Or again, the cost of mining wranium in the Bloc might be less than in the West, but one would not conclude from t is fast that there is no point in draying the Bloc ascess to western wranium.

The Generalist philosophy of exterky makes it appropriate to assume that
the USSR is working to attain self-sufficiency in every commedity which it
considers strategie. One can also be sure that the Bloc has been working on
the development of substitutes for those few raw materials which it does not
produce itself, that it has made progress, and that eventually it will be
successful in that its war-waking ability will not be hampered through the lack
of any material. In the meanwhile, however, before substitutes are perfected,

might also promote long-run advantages to the USSR if they serve to stimulate
the production of better substitutes. Thus it seems likely that in the Soviet
view mearly all commodities are note cheeply attained through domestic production
rather than through trade, because there would be included in the cost of imports
the cost of foregoing the security advantages of producing the good at home.
Thus in the Soviet view, the only gains from trade would be in those commodities
for which its own substitutes are still inferior. Through trade t'ey gain time
for the research and development of new sources of their own. When, or insofer,
as they have succeeded in developing these, from their own view point, trade
restrictions can do them no not injury. Considered in this light all losses,
with one exception, inflicted on the Bloc through trade controls would be temporary
and would be terminated upon the successful development of demotic sources of
supply.

an important entegory of Bloc imports from the Next, however, lies in
the machine items which serve as protetypes of western technology. So long as
western technological progress continues to be more rapid than that of the Bloc
in any specific line, the Bloc can save capital costs by importing prototypes.
In this way their effective supply of research ability is enlarged, and the
secondity for building pilot plants is eliminated. The loss to them, should
they be unable to import prototypes, would be a continuous rather than a
temperary loss, for they would have to devote more of their resources to research
and development than they now do.

Throughout the entire discussion so far we have treated the USER and the

Bloc as symmonome. It has already been pointed out that lask of data may forme
Approved For Release 2001/08/27: CIA-RDP63-00084A000100020024-8

The termidate the USE the law cost producer in the Bloc for purposes of

determining those commodities in which trade would be most sainful. Our knowledge of interindustry relationships related to the USSR alone. Ideally we should prefer such inferenties relating to the interindustry relationships for the Bloc as a whole, for it is entirely associable that the USSR of hit be able to pass on the burden of the loss from trade controls to some other part of the Blos. Thus if some other part of the Blos is producing and using an embaraged essendity which the USSR had obtained from the Soviet Union would probably replace its lest imports from Ploc sources, and thus force the burden of adjustment on to a satellite. But any Bloc sources of commedities considered strategie by the VSSE are unfountedly being exploited already and are probably being shipped to the USSL. The only way the Blee as a whole could escape the less would be through the discovery within the Blos of new sources of supply. Further if the controls applied to the USSE are not applied to the rest of the Bloc, then the measure of the economic less is meaningless. The only loss involved would be the extre regources (if any) impolved in importing from the Mest via those countries to which the controls do not apply. It seems unlikely, however, that if centrels are uniformly applied to the Bloc and effective, the resulting loss which is deduced for the USSR could be avoided by the Blos as a whole. It also mone likely that the USSR is already getting most, if not all, of the output of strategic items of other parts of the Bloc.

### 1.c. Regional Application

A free world embarge of shipments of any single item to the Floc will be successful only if every westers country producing the item agrees to enforce the central. Thus a choice of any list of experts to be controlled must consider. require a limitation of all western purchases from the Bloc requiring payments in these surrencies, including western purchases of Bloc gold. The administration of such a program would probably be difficult.

In addition, if the Nest, especially western Europe, refused to purchase like gold, it would deny to itself the advantages of larger gold resources.

The increase in internal and international economic stability resulting from larger gold reserves as well as the increase in confidence derived from them is an important debit against the credit of more effective control over trade.